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FIRST COUNTRY COOPERATION FRAMEWORK FOR PANAMA

CONTENTS

	Paragraphs	Page
INTRODUCTION	1	2
I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE	2 - 17	2
II. RESULTS AND LESSONS OF PAST COOPERATION	18 - 23	5
III. PROPOSED STRATEGY AND THEMATIC AREAS	24 - 46	6
IV. MANAGEMENT ARRANGEMENTS	47 - 55	10
Annex. Resource mobilization target table for Panama (1997-2001)		12

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INTRODUCTION

1. This document is based on the advisory note submitted by the Resident Representative of the United Nations Development Programme (UNDP) in Panama to the Ministry of Planning and Economic Policy and on the following documents: (a) the National Programme for Improving the Management of International Technical Cooperation; (b) the framework report and guidelines for national planning of international technical cooperation prepared by the Ministry of Planning and Economic Policy; (c) the 1994-1999 government programme on "Public Policies for integrated development: social development with economic efficiency".

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

2. The current Government (1994-1999) recognizes that the development models which the country has adopted have failed to meet initial expectations and that a new model will have to be used in order to correct the economic and social distortions resulting from the previous models.

3. The services sector, the largest sector of the Panamanian economy, generates most of the country's foreign exchange earnings. It is geared towards international trade, its most prominent features being the operations of the Panama Canal, the Colón Free Trade Zone and, more recently, the International Financial Centre. The tertiary sector, which accounts for some 72 per cent of the gross domestic product (GDP) is concentrated in Panama City and Colón. Agricultural, agro-industrial and industrial activities are carried out in the rest of the country. As far as the latter sectors of the economy are concerned, the present economic model has lost its relevance.

The economic model and its consequences

4. The foreign currency earnings from export services have been the engine for economic growth. As much as three quarters of the country's foreign currency earnings are derived from services connected in one way or another to the operation of the Panama Canal, such as the trans-Panamanian oil pipeline, the Colón Free Trade Zone, the United States military bases, and related activities. Such activities have been growing very slowly, however, and there is no room for further growth since the maximum use of the facilities has been attained. No new activities have emerged in this area since the early 1980s for two reasons: major local or foreign investors do not find the protected domestic market attractive; and economic policies designed to attract such investments have been ambiguous and have not been as clearly articulated as those of other countries. Earnings from export services have not been enough to offset the costs of imported goods. As a result, Panama has been running a chronic deficit in its current account. That deficit stood at $226.4 million in 1990, while in 1995 it was $586.8 million (10 per cent of GDP).

5. For several decades now, the Panamanian State has engaged in the unsound practice of increasing its spending, at a rate outpacing the growth of revenues;

at the same time, in the absence of antitrust legislation, it has granted tax incentives to certain sectors, resulting in lower tax receipts. In the past, that situation prevented the Government from investing sufficiently in infrastructure, let alone in the social sector, and from meeting its current expenses and honouring its debt payment obligations. The balance of such debt was $3,907,100,000 (69 per cent of GDP) at the end of 1995.

6. The economic policies described above have, in large part, caused the economic and social problems referred to below.

7. Uneven income distribution. Per capital GDP is estimated at $2,590. The earnings from work of the richest 20 per cent of the population are 30 times higher than those of the poorest 20 per cent.

8. Declining GDP from the 1970s onward. GDP rose by 9.3 per cent in 1991 as a result of short-term factors such as the external assistance provided in response to the situation faced by the country in late 1985 and in 1990. GDP rose by 4.7 per cent in 1994. For the period 1994-1995, the rate of growth is estimated at 1.9 per cent. The unemployment rate rose from 7.3 per cent in the 1970s to 13.7 per cent in 1995 (138,000 unemployed persons).

9. Widespread poverty. Forty-five per cent of the total population of 2.6 million (1.7 million) lives below the poverty line and 20 per cent lives in extreme poverty. This situation is more serious in the rural areas, where more than half of the population lives.

10. Unequal distribution of health and education services throughout the country. On the basis of health indicators, Panama ranks among the countries with the best health services. The coverage of health services in the rural areas and in villages with populations under 1,500 is 62 per cent and 72 per cent, respectively. As far as education is concerned, the rate of illiteracy at the national level was estimated at 10.7 per cent, while the average number of years of schooling successfully completed was 6.7. However, in the three provinces with a high percentage of indigenous people, the illiteracy rates among those over six years old are 30.1 per cent, 30.4 per cent and 40 per cent, while the average number of years of schooling completed is 4.1, 3.7 and 3.4 respectively.

11. The situation of women. According to the indicators used in the Human Development Report, Panamanian women are not at any substantial disadvantage as far as access to health and education services is concerned; however, situations of discrimination against women persist, reflected especially in low political participation, lower relative income and greater risks of unemployment. In 1993, women's share of income from work was 26.5 per cent while the share received by men was 73.5 per cent. Although the low share received by women is not directly attributable to past policies, what is certain is that, since women constitute one of the most disadvantaged groups, their situation is made worse by the poorly developed socio-cultural environment in which they find themselves.

12. As far as the environment is concerned, the main problem facing Panama is deforestation and the loss of biological diversity. It is estimated that in

1950 over 60 per cent of the country's land area was covered by natural forests; by 1989, the forest cover had shrunk to 40 per cent. Should the present rate of destruction continue, less than 20 per cent of the natural forest will be left intact by the year 2000.

13. With respect to the system of government, democracy was restored in the country in 1990. In 1994, Panamanians elected a new Government for the period 1994-1999 in an atmosphere of civic pride. The Legislative Assembly is made up of parliamentarians from the different political parties; at the district and local levels, representation is even broader since, as of 1990, mayors are elected by direct popular vote. Decision-making and the management of public funds remain the province of the central government. Nonetheless, the political will exists to change this situation and to engage in a dialogue with the different stakeholders in the country with the aim of taking decisions on Panama's future by consensus and ensuring that such decisions are embodied in official policies that remain in effect after the terms of office of individual governments have expired.

The Government's development programme and strategy

14. The Government intends to pursue two general objectives: (a) to reduce poverty and extreme poverty substantially before the end of its five-year term of office, which will result in more equitable distribution of income; and (b) to increase efficiency and productivity in order to strengthen broad-based sustainable economic growth. The development strategy covers the following fields.

15. Social field (a) launching, in the near future, a programme designed to deal with situations of extreme poverty and establish mechanisms for incorporating heads of families into production activities; (b) undertaking a comprehensive and imaginative reform of education, in terms of content and organizational structure, focusing resources on primary, secondary and technical education, in that order; and (c) eliminating the factors that make housing more expensive and facilitating the purchase of housing by low-income groups.

16. Economic field (a) simultaneously eliminating the twofold distortion of excessive incentives for capital, on the one hand, and excessive rigidity with respect to labour, on the other; (b) eliminating protectionism by gradually lowering tariffs to reasonable levels in parallel with other measures, while abolishing quantitative restrictions on imports; (c) reducing prices by eliminating subsidies controlling monopolies and oligopolies, and decontrolling prices; (d) removing the barriers to entry into certain activities, such as transport; (e) improving the infrastructure so that it meets the country's needs; and (f) establishing links with major markets through participation in the integration scheme that best serves the country's interests.

17. Implementation (a) implementing official policies through a process of wide-ranging consultations with all parties concerned; and (b) ensuring that the different policies are implemented in a coherent manner and where necessary, simultaneously.

II. RESULTS AND LESSONS OF PAST COOPERATION

18. During the period 1990-1994, Panama received external development assistance totalling $657.6 million, 60 per cent of which - $396.7 million - was received in 1990 and 1991, when the country's economy was recovering from the crisis that occurred at the end of the previous decade. In 1994, assistance stood at $54.1 million, a decline of 40.6 per cent from the 1993 level, as a result of the reduction in the United States assistance to Panama. Of the $657.6 million received in 1990-1991, $39.3 million came from multilateral sources; $611 million from bilateral sources; and $7.3 million, from non-governmental organizations.

19. The fifth UNDP country programme for Panama (1992-1996) established four areas of concentration: (a) modernization of the State and restructuring of the public sector; (b) social development and poverty alleviation; (c) strengthening of production sectors and promotion of employment; and (d) sustainable environmental development.

20. In addition to these areas of concentration, UNDP supported the country in its efforts to achieve good governance. In coordination with the universities, a forum for dialogue and consultation between the Government, the political parties and civil society was established. This dialogue was launched at the National Meeting on Unity and Human Development, held in August 1993. The meeting produced an "Agenda for Government", which was embodied in the Bambito Declaration.

21. UNDP has also supported the holding of meetings between representatives of political parties, citizens' groups and the Government in connection with the Panama 2000 initiative, for the purpose of determining the legal framework for the administration of the Canal and the areas reverting to Panamanian jurisdiction.

22. Under a cost-sharing arrangement, the Government contributed $82.1 million for ongoing projects in the period 1992-1996, and will contribute $152.5 million to approved projects for the period 1997-1999. The funds in question come from loans provided by the World Bank, the Inter-American Development Bank (IDB) and the International Fund for Agricultural Development (IFAD), as well as from the Panamanian Government's own resources.

23. The lessons learned may be summarized as follows: (a) it has been demonstrated that UNDP can provide support to the Government and to citizens' groups, in order to initiate dialogue aimed at building consensus on issues which are important for the country's future and which, given their nature, call for the formulation of official policies that go beyond the terms of office of individual governments; (b) UNDP has been able to create confidence in Panama among other sources of development assistance, mainly international financial institutions, the World Bank, IDB and IFAD, which feel that they can rely on UNDP to accelerate the implementation of projects funded by them; (c) Panamanian government agencies have the technical capacity to implement projects.

III. PROPOSED STRATEGY AND THEMATIC AREAS

24. Taking into account its characteristics and sources of funding, UNDP cooperation in Panama during the period 1997-2001 should cover two strategic aspects: (a) the process of consultations and (b) the mobilization of resources and support for the implementation of public investment projects.

25. With regard to the former, thanks to the comparative advantage it enjoys as a result of its neutrality, UNDP effectively supported during the period 1992-1996 the will of the people in Panama to engage in a genuine process aimed at achieving good governance through various events promoting rapprochement through dialogue and concerted action. The results of the National Meeting on Unity and Human Development and the Panama 2000 initiative have shown that, through participation and dialogue, agreed solutions to the country's fundamental problems can be worked out.

26. Consequently, during the period 1997-2001, UNDP's limited core resources will be used to continue to promote and foster the formulation of government policies which transcend the term of office of individual Governments, using for this purpose the procedures for dialogue and consensus-building that have already been tried.

27. As regards the second-mentioned aspect, UNDP cooperation will be used in the following thematic areas: (a) support for the formulation of national programmes of job creation, modernization of the State, environmental protection and recovery, and poverty eradication; (b) mobilizing national and external resources for the implementation of such programmes; and (c) supporting the Government in putting financial resources rapidly and efficiently to use for public investments through the provision of management services. If this is to be achieved, UNDP must also support activities aimed at strengthening institutional capacity for the identification and formulation of public investment policies, especially those having a local impact.

28. UNDP will also promote greater participation on the part of non-governmental organizations in the identification, formulation and implementation of projects, mainly those which involve specific activities in local communities such as job creation, the promotion of mechanisms for the participation of local organizations and environmental preservation, among others.

Thematic areas

29. On the basis of the Government's programme, the Ministry of Planning and Economic Policy has identified a package of public policies which embody the main features of the National Development Strategy. These policies are to serve as a guide for international technical cooperation in the period 1997-2001 and, hence, for that of UNDP as well.

30. The sectors covered by these public policies are: (a) taxation and public administration; (b) economic issues; (c) matters relating to the areas reverting to national jurisdiction and the Panama Canal; (d) social issues; and (e) the environment.

31. The Ministry of Planning and Economic Policy considers that, under these five areas of public policy, six areas of concentration for international technical cooperation should be identified: (a) promotion of social development and poverty eradication; (b) reorientation and strengthening of public sector management; (c) maritime development, the Canal Zone and the areas reverting to national jurisdiction (Interoceanic Region); (d) environmental protection and sustainable environmental development; (e) revival of production sectors through the application of science and technology to the production process; and (f) strengthening of economic infrastructure and support services for the country's economic activity.

32. The main characteristics of UNDP assistance in each area of concentration which has been selected are indicated below, reference being made first to the content of the official policies to be supported.

Promotion of social development and poverty eradication

33. The main objective of the social policies is a substantial reduction in poverty and an increase in living standards for the poorest population groups, which will require a more equitable distribution of income. The policy is geared to involving the poor in the economic and social development process, with special attention to those whose skills are weakest and young people.

UNDP cooperation

34. Courses on sustainable human development will be conducted for government officials and members of private citizens' groups, trade unions, women's movements, research centres, universities, indigenous organizations, churches and other organizations. Support will also be given for the first National Human Development Report, as it is expected that individuals who have attended these courses will assist in the preparation of such a report. Using procedures involving dialogue among the various parties in order to achieve consensus, support will be given for the design of agreed strategies to combat poverty and increase the participation of women in development.

35. Support will also be continued for a survey of living standards, which, upon completion of the analysis stage, will provide quantitative data to improve policy-making on social issues.

36. Support will be continued to accelerate the implementation of public investments projects in the social sectors (education, health and housing) with the aim of providing the population with greater access to such services. Full participation of the private sector in the related construction projects will be sought through invitations to tender or competitive bidding.

37. Mention should be made in this connection of two projects financed by IFAD, one relating to the development of the Ngobe-Buglé communities and the other to the sustainable rural development in Darién, both of which are closely interrelated with the agricultural sector and its economic aspects. These two projects have distinctive features: they promote sustainable agricultural methods for the indigenous inhabitants, with the participation of the

communities and non-governmental organizations, and they incorporate a gender perspective.

38. In addition, support needs to be given to the national commissions entrusted with follow-up of the commitments assumed by Panama at United Nations conferences such as the World Summit on Social Development, the International Conference on Population and Development and the Fourth World Conference on Women. With regard to the latter, the Government has established a National Council on Women. The Council is made up of representatives of private citizens' groups and the Government has been provided with the services of a technical secretariat under the responsibility of the Department on Women of the Ministry of Labour and Social Welfare.

Reorientation and strengthening of public sector management

39. The policies in this area seek to improve institutional capacity to respond to social problems in a timely manner and to offer opportunities for promoting action by individuals and the private sector. Reforms will be introduced in the public and financial sectors, the role of the public sector will be redefined and a restructuring of the administration will be carried out.

UNDP cooperation

40. The implementation of the projects of the fifth country programme relating to the modernization of the State, in particular the formulation of policies in keeping with the new development model, will be pursued. In addition, assistance will be continued so that IDB lending operations amounting to $41 million, programmes for strengthening and modernizing fiscal management, the modernization of the Ministry of Foreign Affairs, the strengthening of the judiciary, and reform of public enterprises will go forward. With already approved financing from IDB, the legislature will be modernized so that, among other things, private citizens' groups will develop closer relations with the Assembly and mechanisms will be established for the participation of such groups in the decision-making process.

41. In addition, innovative activities will be promoted involving the devolution of powers from the central government to the local governments, in support of the President's programme entitled, "The Municipality of the Twenty-first Century: for Sustainable Human Development", a vehicle for promoting administrative decentralization in the implementation of public works projects and establishing mechanisms for community participation in sustainable human development at the grass-roots level.

42. Two projects relating to good governance will be undertaken with financing from the Spanish Government, one involving reform of the prison system and the other support for public security activities. It is hoped that support will also be received from Spain in the judicial sphere for the training of judges, magistrates, public prosecutors and public defenders.

Maritime development, the Canal Zone and areas reverting to national jurisdiction (Interoceanic Region)

43. The aim of the policies in this area is to integrate the Canal and the interoceanic zones into Panama's economy, following the completion of the transfer of the Canal, and to promote investments to take advantage of the economic potential of the former Canal Zone. The implementation of the policies will seek to improve Panama's international image, demonstrating that it has the capacity to administer the Canal effectively and efficiently, provide an impetus to the country's becoming an international shipping centre, and integrate into the national economy the areas reverting to national jurisdiction.

UNDP cooperation

44. In furtherance of the Panama 2000 initiative, UNDP will continue to serve as mediator so that the political parties, private citizens' groups and the Government can, through dialogue, succeed in defining, as official policies, the legal framework for the administration of the Canal and agreements on other delicate related issues. Support will also continue to be provided to enable the Interoceanic Region Authority to modernize its management systems and speed up investment in the interoceanic region, to the tune of $17 million.

Protection and sustainable development of the environment

45. The primary objective of the policies in this area is to establish mechanisms for promoting development and economic growth without having an adverse effect on natural resources or the environment in general. They have been formulated to guide and direct activities for the conservation, management and use of natural resources and improving the environment with the aim of preventing environmental pollution and the degradation of renewable natural resources.

UNDP cooperation

46. Activities under the biodiversity project for Darién will be pursued and other projects will be undertaken, one involving the preservation, management and environmentally sound use of the tree species Prioria copaifera, financed by the International Tropical Timber Organization, and another project to promote the capacity of selected local communities for sustainable development. Once the Environment Act has been approved, environmental specialists from the UNDP office in Panama, in cooperation with the Government and non-governmental organizations, will determine the activities to be undertaken by UNDP in the future. In addition, steps will be taken to fulfil the commitments assumed at the Earth Summit.

IV. MANAGEMENT ARRANGEMENTS

A. Execution and implementation

47. National execution will be used for all the projects and programmes during the period 1997-2001. Depending on the specialized technical requirements of individual projects and programmes, agencies of the United Nations system will be called upon to serve as executing agencies.

48. The UNDP office was reorganized in order to give greater impetus to national execution and, in October 1995, the Operations Unit was created to provide the necessary logistical support to national project managers and coordinators. UNDP will continue to review its operations and introduce other changes in its structure and procedures in order to make its support more efficient and more effective.

49. The programme approach will continue to be promoted and UNDP support will be sought for the formulation of national programmes as and when necessary. UNDP assistance will also be sought to mobilize external resources to complement domestic resources for financing programmes.

B. Monitoring and review

50. The Ministry of Planning and Economic Policy and UNDP will conduct a review of existing project documents and, where necessary, quantitative and/or qualitative output indicators and indictors of the project's impact on sustainable human development will be identified. The identification of such indicators will be done together with counterpart officials responsible for project implementation and with the coordinators and technical staff. In the case of new programmes and projects, these indicators will be identified at the formulation stage and will be reviewed in the course of implementation.

51. UNDP will have to see to coordination with the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the World Food Programme (WFP) by arranging for a joint review of country activities, the aim being for all to use the same indicators as benchmarks for their assistance to Panama.

52. Where projects financed from loans from international financial institutions are concerned, the timetable for the submission of reports, the conduct of reviews and the auditing of accounts will be determined in the project documents, in order to avoid any duplication in the monitoring and review processes.

53. Tripartite review meetings and monitoring visits will continue to be used. Mid-term reviews will continue to be carried out for large-scale projects. Where such projects are financed with loans, UNDP will be asked to participate in the review missions of the international financial institutions so that only one review will be carried out.

54. The country programme will be reviewed on an annual basis and during the second half of 1999, a programme review will be conducted with the new government authorities in order to assess the programme's relevance.

C. Resource mobilization and coordination of assistance

55. The resource mobilization target table is given in the annex, covering UNDP-administered funds for activities indicated in the first cooperation framework for the period 1997-2001.

Annex

RESOURCE MOBILIZATION TARGET TABLE FOR PANAMA (1997-2001)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated IPF carry-over 1992-1996	–	
TRAC 1.1.1	948	Assigned immediately to country
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources
SPPD/STS	84	
Subtotal	1 032'	
NON-CORE FUNDS		
Government cost-sharing	250 830	Includes resources from loans granted by international financial institutions
Sustainable development funds (Global Environment Facility, Montreal Protocol, Capacity 21)	1 648	Represents the balance of approved resources ($2 million) not used in the period 1992-1996) will be requested, subject to availability.
Third-party cost-sharing	1 125	$900,000 to be provided by ILO and the remainder by the Government of Spain.
Funds, trust funds and other	–	Resources are being sought from the United Nations Development Fund for Women
Subtotal	253 603	
GRAND TOTAL	254 635'	

' Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: IPF = indicative planning figure; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignments from the core.